



1040 O Street, P.O. Box 80869  
Lincoln, NE 68501-0869

November 4, 2011

Joan E. Ross, City Clerk  
City-County Building  
555 South 10<sup>th</sup> Street  
Lincoln, NE 68508

Dear Joan:

Please find enclosed a request for resolution, fact sheet, and draft resolution for the City Council's consideration of the proposed Lincoln Electric System (LES) Operating and Capital Budget for calendar year 2012, as well as the proposed "Rate Schedules", providing for a system average rate increase of 3.5 percent, to be effective January 1, 2012. The 2012 LES Budget and rate increase were approved by the LES Administrative Board on November 3, 2011.

We have proposed the following schedule for your consideration of the 2012 LES Budget and rate adjustment:

- Monday, November 14 - Introduction of LES budget resolution and rate resolution.
- Monday, November 14 - Pre-Council session on LES budget and rate adjustment.
- Monday, November 21 - Public Hearing on LES budget resolution and rate resolution at City Council meeting.
- Monday, December 5 - City Council action on the LES budget resolution and rate resolution.

If you have any questions, please e-mail me at [ssahling@les.com](mailto:ssahling@les.com) or call me at 473-3204. The remaining materials will be forthcoming.

Sincerely,

Shelley R. Sahling-Zart  
Vice President & General Counsel

SRS:cls  
Enclosures

c: Mary Meyer



Lincoln Electric System

***LES RESOLUTION 2011-16***

WHEREAS, it is the responsibility of the Lincoln Electric System (LES) Administrative Board to develop and recommend to the City Council of the City of Lincoln (City) for their consideration and action a proposed annual budget for the operation of LES consisting of an operating budget and a capital budget;

WHEREAS, the LES Administrative Board is charged with the responsibility for the control and management of the personnel, property, facilities, equipment, and finances of LES and annually approves the Budget Appropriation Request to guide the financial and operational activities during the upcoming year;

WHEREAS, the Proposed 2012 LES Operating Authorization in the amount of \$253,080,000 and the Proposed 2012 LES Capital Authorization in the amount of \$73,580,000 was transmitted to the Budget & Rates Committee of the LES Administrative Board for review;

WHEREAS, the Budget & Rates Committee met and reviewed the Budget Appropriation Request on August 31, 2011, September 2, 2011 and October 12, 2011, and recommends it to the full Board for adoption;

WHEREAS, the LES Administrative Board reviewed the Budget Appropriation Request on September 16, 2011, and customer feedback on the Budget Appropriation Request on October 21, 2011;

WHEREAS, LES held a public meeting on the proposed budget on October 25, 2011;

WHEREAS, LES has the obligation to make capital improvements necessary to maintain the electrical system in good working order and repair and expenditures for such purposes which are made from revenues may be reimbursed to the LES revenue or other funds from the issuance of the City's electric system revenue bonds;

WHEREAS, obtaining right-of-way is an ongoing and necessary process for construction of transmission and distribution facilities that are identified in capital improvement budgets, the implementation of which on occasion requires the use of eminent domain requiring Lincoln City Council approval;

WHEREAS, Accounting Standards Codification (ASC) 980, among other things, allows special accounting or amortization of certain expenses subject to certain requirements, including a plan to recover such costs through future rates and regulatory body approval;

WHEREAS, LES desires to defer expensing of wind interconnection costs in the amount of \$2.1 million in 2012, and instead recover the costs through LES rates by amortizing the costs over the life of the wind energy contract (20 years) as allowed pursuant to ASC 980; and

WHEREAS, the City Dividend for Utility Ownership requires a periodic reconciliation of monies collected in order to meet the specified payment obligation to the City of Lincoln, which will have an impact on future rates;

NOW, THEREFORE, BE IT RESOLVED, that pursuant to the recommendation of the Budget & Rates Committee, the LES Administrative Board hereby adopts the 2012 LES Operating and Capital Appropriation Request in the total amount of \$326,660,000 and directs that it be properly transmitted to the Lincoln City Council for its full consideration and adoption;

BE IT FURTHER RESOLVED, that to the extent capital improvements for transmission or distribution facilities of LES are made from LES revenues, it is intended that the amount of such expenditures, which is not reasonably expected to exceed \$95 million, shall be reimbursable to the LES revenue and other funds through the issuance of future electric system revenue bonds, there being no funds of LES or the City reserved, allocated on a long-term basis or otherwise set aside (or reasonably expected to be reserved, allocated on a long-term basis or otherwise set aside) to provide permanent financing for the expenditures related to such expenditures, other than pursuant to the issuance of such electric system revenue bonds, this Resolution being determined to be consistent with the budgetary and financial circumstances of LES and the City as they exist or are reasonably foreseeable on the date hereof the proper officers of LES shall keep and maintain records at least annually to determine the amount of such excess capital expenditures that may be reimbursed from electric system revenue bond proceeds;

BE IT FURTHER RESOLVED, that the LES Administrative Board hereby requests that the Lincoln City Council give LES ongoing eminent domain authority for those projects identified in the LES Appropriation;

BE IT FURTHER RESOLVED, that the LES Administrative Board approves the utilization of the ASC 980 procedure to defer \$2.1 million in wind interconnection costs and recover the costs through future LES rates, amortizing the costs over 20 years; and

BE IT FURTHER RESOLVED, that the LES Administrative Board also approves the utilization of the ASC 980 procedure to recover through future rates any costs due to periodic reconciliations of monies collected from the City Dividend for Utility Ownership that are necessary to meet the specified payment obligation to the City of Lincoln.

  
Chair

Adopted: Nov. 3, 2011



1040 O Street, P.O. Box 80869  
Lincoln, NE 68501-0869

November 8, 2011

Lincoln City Council

Lincoln, Nebraska

Subject: Lincoln Electric System (LES) 2012 Operating and Capital Budget Appropriation Request

Chair Carroll and Members of the Lincoln City Council:

Enclosed for your review is the proposed 2012 LES Operating & Capital Budget and proposed Rate Schedules for rates effective January 1, 2012. The budget and accompanying rate increase were approved by the LES Administration Board at a special meeting on November 3, 2011, and are recommended for your approval. We are seeking concurrent approval of both the budget and the rate increase.

We are proposing the following schedule for your consideration of the 2012 budget and rate increase:

- Monday, November 14 – Pre-Council Session at 1:00 pm
- Monday, November 14 – Introduction and First Reading
- Monday, November 21 – City Council Public Hearing
- Monday, December 5 – City Council action on the LES budget and rate increase

In addition and consistent with past practice, we will schedule individual briefings with members of the Council, as desired, subsequent to November 14, 2011.

LES is recommending a 2012 Operating & Capital Budget that includes an average increase in electric rates of 3.5% or approximately \$8.2 million effective January 1, 2012. The rate increase is needed to support increases in the expected cost of production and power purchased because of reduced power available through LES' participation agreements with NPPD due to the EPA Cross State Air Pollution Rule. Other major contributing factors are simultaneous planned maintenance outages at two base load units, increased fuel and fixed production costs for Walter Scott 4 and Gerald Gentleman Station, and facility construction costs to support wind energy purchases. To see other contributing factors, please see page 2 of the attachment.

As you know, effective September 1, 2011, LES began collecting the City Dividend for Utility Ownership (CDFUO). Because the CDFUO is collected separate from LES rates, it is not included in the 2012 Budget Appropriation Request.

#### **The State of LES**

As a city-owned utility, Lincoln Electric System serves as an advocate for our customer-owners by delivering economical, reliable and high quality electric services, offering cost-effective programs to lower energy consumption, and promoting environmentally friendly and sustainable solutions to reduce our carbon foot print. An indicator of our sound financial practices is our continued ability to pursue these business strategies in a volatile business environment while offering services at rates that are

among the lowest 10% of 106 major cities in the nation. Another is our consistently excellent financial ratings by Standard and Poor's, Moody's Investor Service and Fitch Ratings.

In 2011, we continued to focus our efforts on serving customers at the lowest possible cost while maintaining a strong emphasis on safety and reliability. We maximized opportunities to manage costs while continuing to reach significant service milestones. As we look to the future, we will continue to seek opportunities to manage the challenges of our industry.

### **2011 Successes**

The 2011 budget outlined a number of goals directed toward addressing reliability, sustainable energy and customer access and efficiency. The following identifies several accomplishments that were completed in 2011 in support of those goals.

- Continued high customer participation in our Sustainable Energy Program
- Implementation of new SAP Human Capital Management and Customer Relationship and Billing systems
- Affirmation of AA rating from financial rating agencies
- The adoption of refined Strategic Priorities
- Continued improvement in financial metrics

### **2012 Industry and LES Challenges**

There are numerous challenges facing the utility industry. Many of these are occurring due to electric industry regulation and the associated compliance costs. LES continues to take a proactive approach to address these challenges to minimize the impact to our customers.

Some of these challenges include:

- Compliance with the EPA Cross State Air Pollution Rule
- Simultaneous planned maintenance outages at two base load power plants
- Increases in fuel and fixed production costs
- Implementation of the Southwest Power Pool's (SPP) Regional Transmission Plan
- Increased North American Electric Reliability Corporation compliance requirements
- An aging workforce
- Sustainability

### **2012 Major Initiatives and Projects**

On a daily basis, the LES team serves nearly 130,000 customers with 99.99% service reliability. This level of reliability rates in the top of our industry and requires continuous dedication to support the generation, transmission and distribution of annual energy sales in excess of 3 million megawatt hours.

The 2012 budget provides the resources to support our ongoing commitment to low cost, reliable energy as well as support for several major initiatives and projects. The following provides an outline of

LES' long-term strategic priorities and the associated initiatives and projects which constitute a significant portion of LES' focus for 2012.

#### Outreach

- Communicate a plan and timeline to fully reclaim all 115kV transmission right-of-way through line clearance efforts
- Implement a three-year communication plan to enhance communication with our customers and employees
- Management of construction and operational activities for District Energy Corporation facilities, including the West Haymarket Facility

#### Employer of Choice

- Recruit, train and develop new staff in preparation for retirements
- Refine compensation and benefits administration policies and processes

#### Customer Service

- Construction of the Central Lincoln Reliability Project
- Stabilization of the new SAP Customer Relationship and Billing system and improvement of customer service levels
- Implementation of a new outage management system
- Clarify and expand vegetation management practices to increase reliability

#### Fiscal Responsibility

- Identification of enterprise risks and development of risk mitigation strategies
- Review and upgrade generation production and expansion planning software
- Contribute \$2 million to the Rate Stabilization Fund supporting LES' goal of developing a fund available to mitigate identified risks

#### Sustainability & Environmental Stewardship

- Implementation of a Sustainable Energy Goal which balances the cost and benefits for options related to demand-side reductions and sustainable generation resources
- Increased funding for the Sustainable Energy Program
- Construction of a landfill gas generation plant
- Integration of additional wind resources
- Implementation of Advanced Meter Infrastructure Learning Center
- Continued conversion of paper records and processes to electronic

#### **2012 LES Staffing**

For 2012, LES full-time employee levels are proposed to increase to 467, up one from the 2011 level. The additional position in 2012 is primarily to support District Energy Corporation (DEC) activities. DEC reimburses LES for this cost. LES full-time staffing levels continue to be below industry comparables on a customers per employee basis. Although the need for 12 additional full-time staff was identified, the LES management team was successful in identifying alternatives, such as hiring temporary employees, to allow the work to be completed until other ways to address the workload are fully explored.

## **2012 LES Budget Request**

### **2012 Operating Budget**

For 2012, LES is recommending a \$234.5 million Operating Budget to support its business plan consistent with LES' strategic mission and priorities. The 2012 Operating Budget reflects an increase of \$19 million over the approved 2011 Operating Budget. Although the base case for the 2012 budget projected an 8.5% rate increase, the Board's Budget and Rates Committee and staff utilized a variety of mitigation measures (described on page 10 of the attachment) that resulted in a recommended budget that assumes a system average increase in electric rates of 3.5% or approximately \$8.2 million.

### **2012 Capital Budget**

For 2012, LES is recommending an \$73.6 million Capital Budget that represents an increase of \$20.8 million or 39%. This increase is primarily due to continued work on the Central Lincoln Reliability Project, design and construction of a landfill gas generation plant and required regulatory compliance projects.

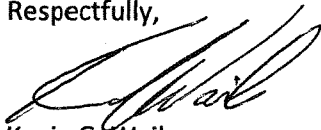
### **2012 Appropriation Request**

Although the Operating Budget reflects planned operating expenses and is used to track budget progress in our monthly financial statement, for purposes of the City Council's approval, we include the Total Budget Appropriation Request which is shown on page 3 of attached handout. The proposed 2012 Total Budget Appropriation is \$326.7 million which is 14% greater than the approved 2011 Total Budget Appropriation. Operating Appropriation is derived by subtracting depreciation from the Operating Budget and adding back debt service and Payments in Lieu of Tax (PILOT). To see a graphical representation of the Budget as compared to the Appropriation please see page 5 of the attachment. The attachment also provides additional details and prior year comparisons for the Budget Appropriation and the proposed 2012 rate increase.

### **Summary**

The proposed budget has been developed to maintain our public power commitment of providing reliable, low cost electric service for our customers. The comparison of LES electric bills with bills from other utilities in the region reveals that LES bills continue to be among the lowest when comparing other utilities 2011 rates to our proposed 2012 rates. Please see the attached regional rate comparison as well as a schedule showing the rate class impact of the 2012 rate increase and the proposed retail rate schedules. As you review this material, please feel free to contact me or an Executive Team member with questions or comments.

Respectfully,



Kevin G. Wailes,

Administrator and Chief Executive Officer  
Lincoln Electric System

Attachments: 2012 Budget Appropriation Request  
Regional Utility Rate Comparison  
2012 Rate Class Impacts  
Proposed Retail Rate Schedules



## Memorandum

---

**Date:** November 8, 2011  
**To:** Lincoln City Council  
**From:** Cathy Schroeder, 402-473-3382, cschroeder@les.com  
**Subject:** Lincoln Electric System (LES) 2012 Operating & Capital Budget Appropriation Request

Please insert the attached document behind the cover letter on the LES 2012 Operating & Capital Budget Appropriation Request packet that was delivered to you today.

If you have any questions, please let me know.

Thank you.



# 2012 Budget Appropriation Request



Striving to be the world's best energy company.

## 2012 LES Budget Appropriation Request

**LES' proposed Budget Appropriation for 2012 is \$326,660,300.** The Operating Appropriation Request is \$253.1 million which is increased \$20.5 million over the 2011 appropriation. The Capital Appropriation Request is \$73.6 million which is an increase of \$20.8 million or 39% over the 2011 appropriation. The following summarizes the significant factors impacting LES' 2012 Proposed Budget and rate adjustment.

### I. Major factors contributing to the change in Power Costs are:

- EPA Cross State Air Pollution Rule which is expected to impact the production capability and cost of power purchased through LES' participation agreements with NPPD (\$3.2 million)
- Simultaneous planned maintenance outages at NPPD's Gerald Gentleman Station and MBPP's Laramie River Station (\$4.0 million)
- Increased fuel and fixed production costs for Walter Scott Unit #4 and Gerald Gentleman Station (\$4.2 million)
- Interconnection costs for construction of facilities to support renewable energy purchases (\$2.1 million)

### II. Major factors contributing to the change in Other Operating costs are:

- **Transmission:**
  - Increase in SPP Regional Transmission Expansion Plan projects (\$1.8 million)
- **Payroll and Benefits:**
  - Transfer of payroll costs from capital to operating expense due primarily to completion of SAP project (\$1.1 million)
  - Potential 2012 compensation adjustment (\$0.8 million)
  - Nine temporary or transitional employees hired for special projects or for succession planning (\$0.5 million)
- **Purchases and Services:**
  - Increase in Sustainable Energy Program (\$1.0 million)
  - Software, hardware and IT maintenance (\$0.9 million)

### III. Major projects included in the Capital Appropriation are:

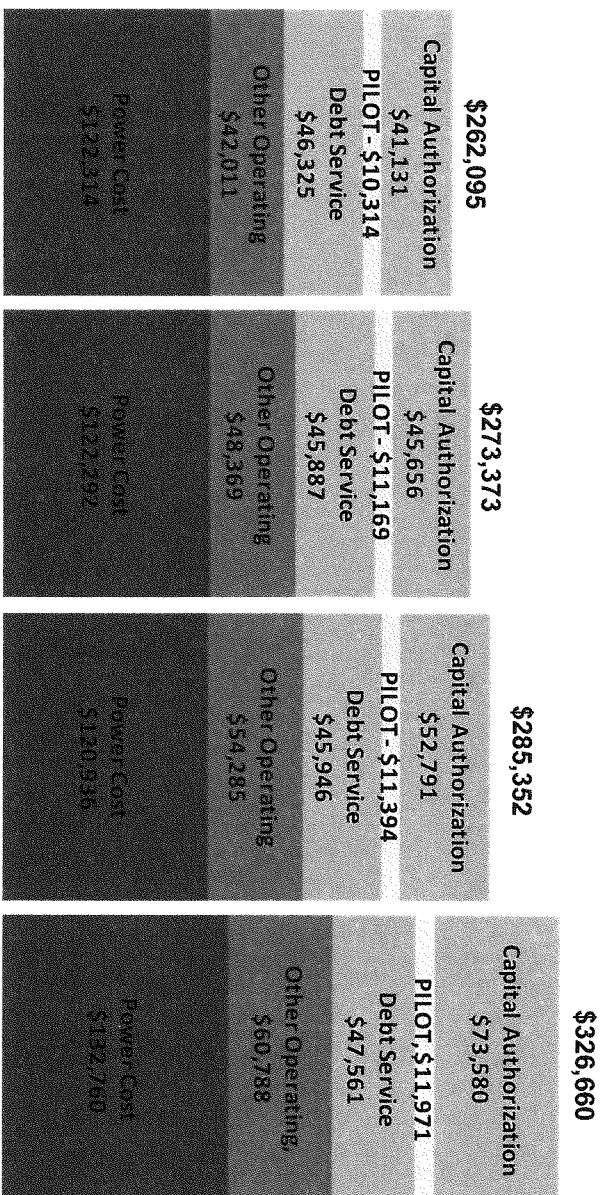
- Central Lincoln Reliability Project (\$17.0 million)
- Landfill Gas Generation (\$6.0 million)
- Underground cable replacement & installation of spare duct (\$3.7 million)
- NERC Remediation Requirements (\$2.5 million)



Striving to be the world's best energy company.

## 2012 Budget Appropriation Request

(In 000's)

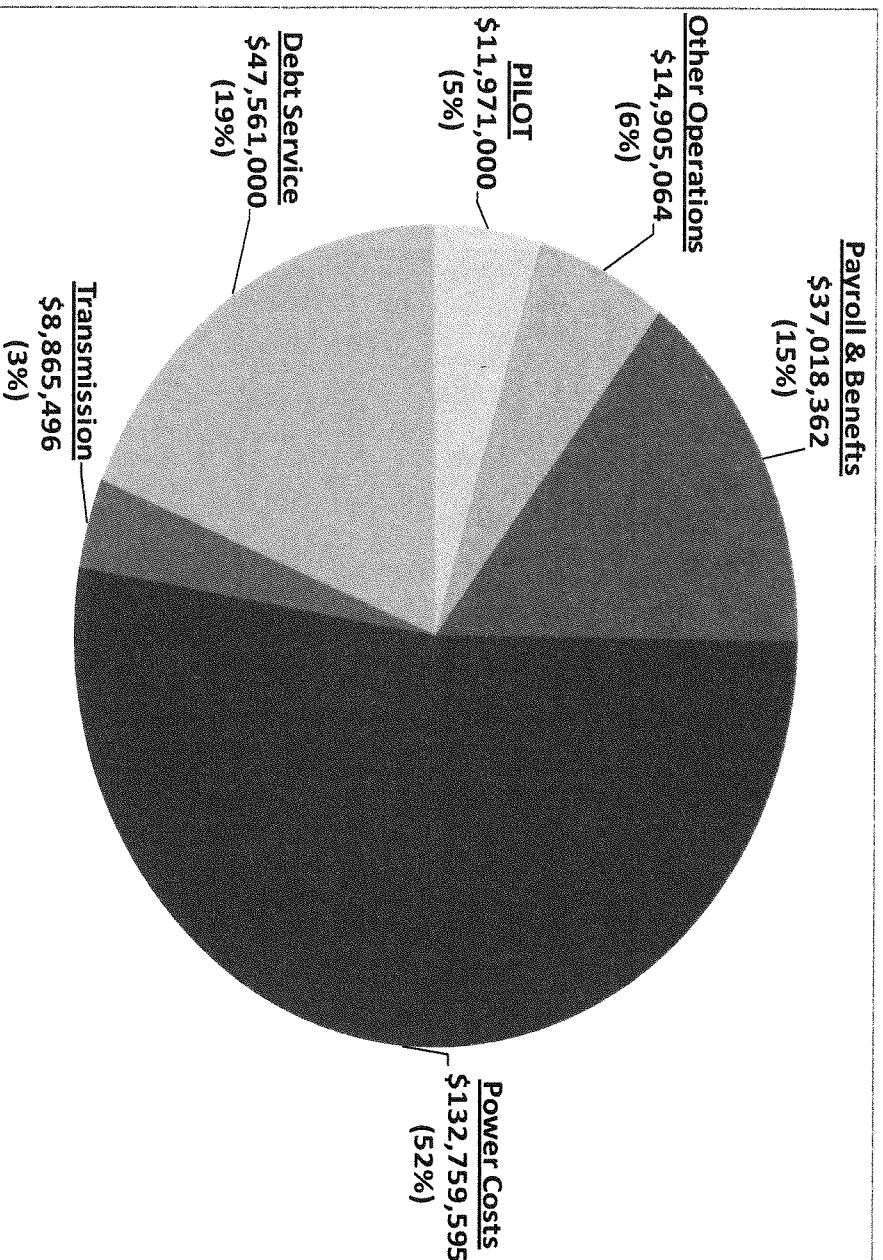


	2009 Budget	2010 Budget	2011 Budget	2012 Budget	2011 vs 2012 Variance (\$)	2011 vs 2012 Variance (%)
Other Operating	\$42,011	\$48,369	\$54,285	\$60,788	\$6,503	12%
Power Cost	\$122,314	\$122,292	\$120,936	\$132,760	\$11,824	10%
Debt Service	\$46,325	\$45,887	\$45,946	\$47,561	\$1,615	4%
PILOT	\$10,314	\$11,169	\$11,394	\$11,971	\$577	5%
Operating Authorization	\$220,964	\$227,717	\$232,561	\$253,080	\$20,519	9%
Capital Authorization	\$41,131	\$45,656	\$52,791	\$73,580	\$20,789	39%
Total Authorization	\$262,095	\$273,373	\$285,352	\$326,660	\$41,308	14%



Striving to be the world's best energy company.

## Components of 2012 Operating Appropriation



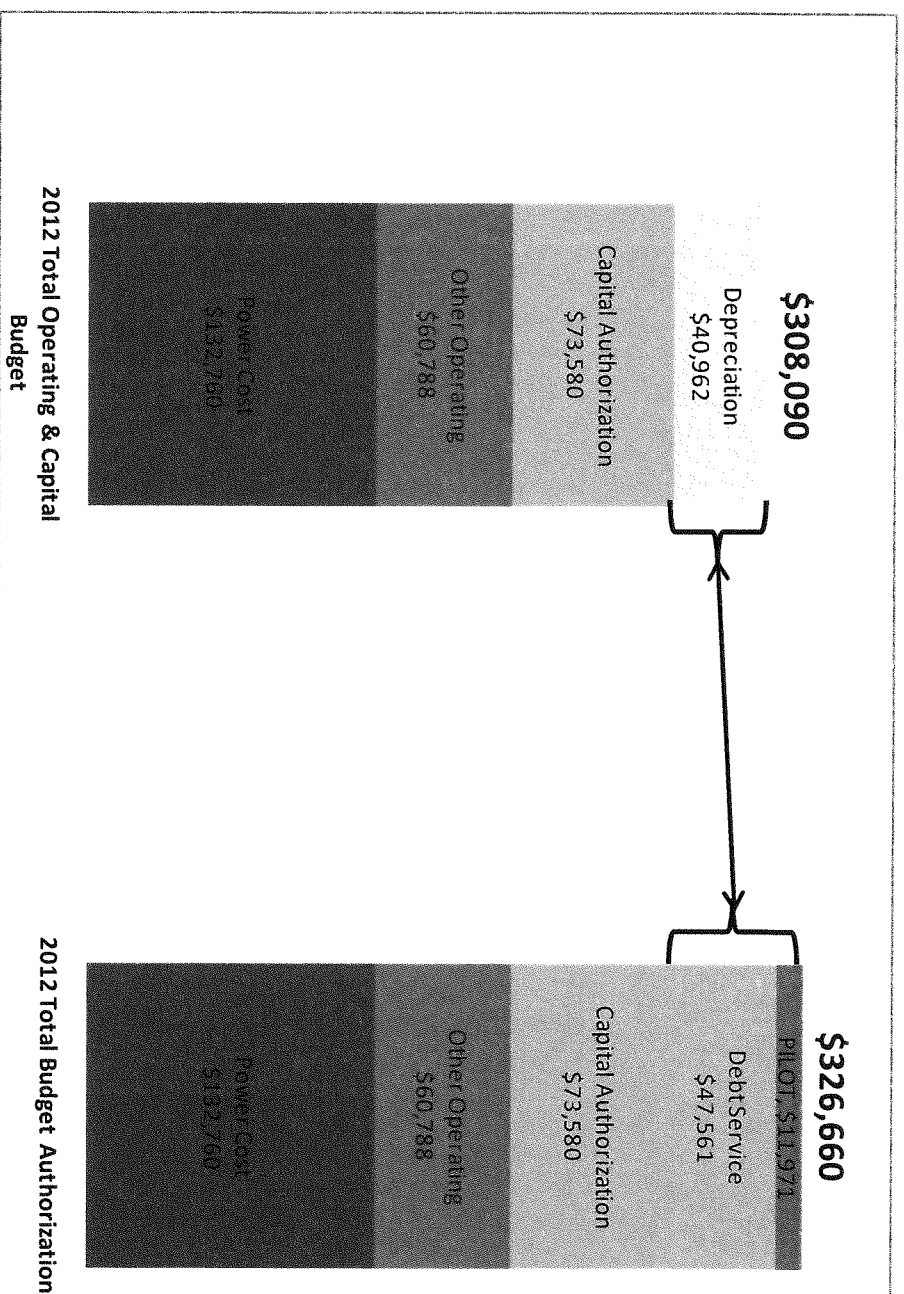
Power costs represent the largest component of LES' 2012 Operating Appropriation. The portion of the Operating Appropriation attributed to power costs remains at 52% for 2012 as was the case for 2011. Power costs increased nearly \$11.8 million in 2012. Prior to rate mitigation efforts, the increase in power and transmission costs would have required a 7.5% rate adjustment. Because power costs constitute such a large percentage of the total, any fluctuation in fuel, transportation or purchased power from other utilities will have a significant impact on the budget. Nearly all of the annual debt service expense is also related to power cost as the debt was issued in support of generation and transmission facilities.

*Note: The Operating Appropriation Request does not include the City Dividend for Utility Ownership (CDFUO) as it is collected separate from LES rates.*



Striving to be the world's best energy company.

# Comparison of Proposed 2012 Operating & Capital Budget vs. Budget Authorization



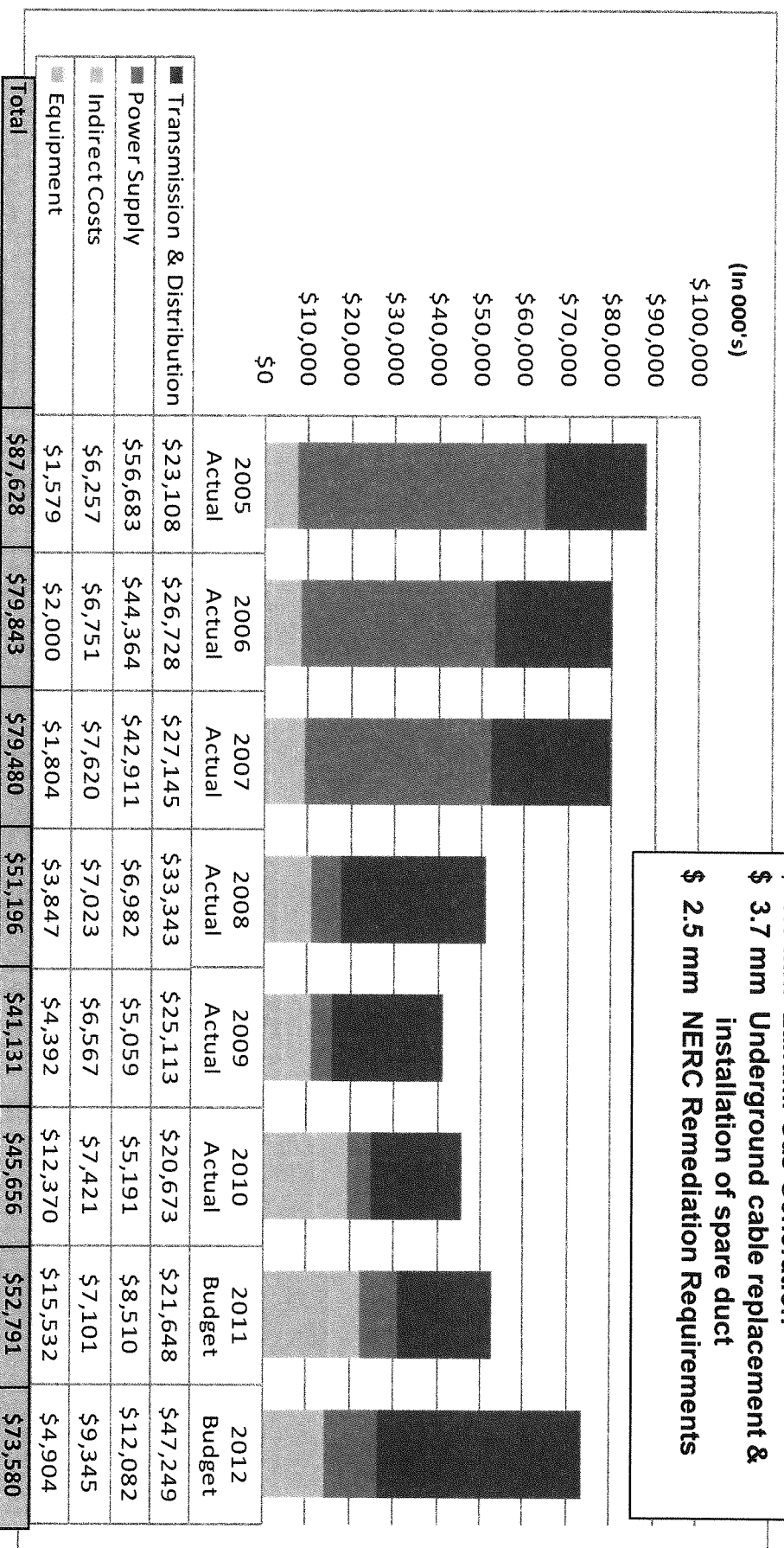
Striving to be the world's best energy company.



# 2012 Capital Budget

**Significant 2012 Capital Projects:**

- \$17.0 mm Central Lincoln Reliability Project
- \$ 6.0 mm Landfill Gas Generation
- \$ 3.7 mm Underground cable replacement & installation of spare duct
- \$ 2.5 mm NERC Remediation Requirements



Striving to be the world's best energy company.

# 2012 Proposed Budget - Capital

Description	Budget Amount
<b>Direct Cost:</b>	
<b>Transmission &amp; Distribution:</b>	
Transmission	\$26,649.0
Substation	5,000.0
Distribution Overhead	2,822.0
Distribution Underground	12,647.0
Waverly	107.0
Street Light	24.0
Subtotal Transmission & Distribution	\$47,249.0
<b>Power Supply</b>	
Power Supply	12,082.0
<b>Subtotal Construction</b>	<b>\$59,331.0</b>
<b>General Equipment</b>	
General Equipment	\$3,953.0
Transportation Equipment	951.0
<b>Subtotal Equipment</b>	<b>\$4,904.0</b>
<b>Total Direct Cost</b>	<b>\$64,235.0</b>
<b>Indirect Cost:</b>	
Administrative & General	\$313.0
Engineering/Supervision Cost	9,032.0
<b>Subtotal Indirect Cost</b>	<b>\$9,345.0</b>
<b>TOTAL</b>	<b>\$73,580.0</b>
Estimated Contributed Capital	(\$1,177.0)



Striving to be the world's best energy company.

## **2012 LES Budget Rate Adjustment Mitigation Measures**

Although the initial 2012 budget projected a 8.5% rate adjustment, the Board's Budget and Rates Committee and staff utilized a variety of mitigation measures that resulted in a proposed budget that includes an average increase in electric rates of 3.5% or approximately \$8.2 million.

The Administrative Board supported use of the following rate mitigation strategies for inclusion in the 2012 Proposed Budget. A description of these strategies is included on page 10.

1. Utilization of \$4.0 million from the Rate Stabilization Fund to cover one time costs for increased power costs due to simultaneous planned maintenance outages at two base load power plants
2. Board approval to amortize interconnection costs incurred to support renewable energy purchases
3. Refinancing of eligible long term bonds to reduce annual debt service costs

On an ongoing basis, LES seeks opportunities to increase process efficiencies and manage costs. A few specific examples include:

1. Obtaining external vendor support for line clearance activities which allows LES resources to focus on activities supporting electric transmission and distribution
2. Elimination of one position on the LES executive team following a recent retirement
3. Proactive wellness programs which provide individuals detailed health information allowing more informed decisions to be made and reduce healthcare costs
4. As appropriate, additional staffing needs are met with part-time, transitional or temporary employees

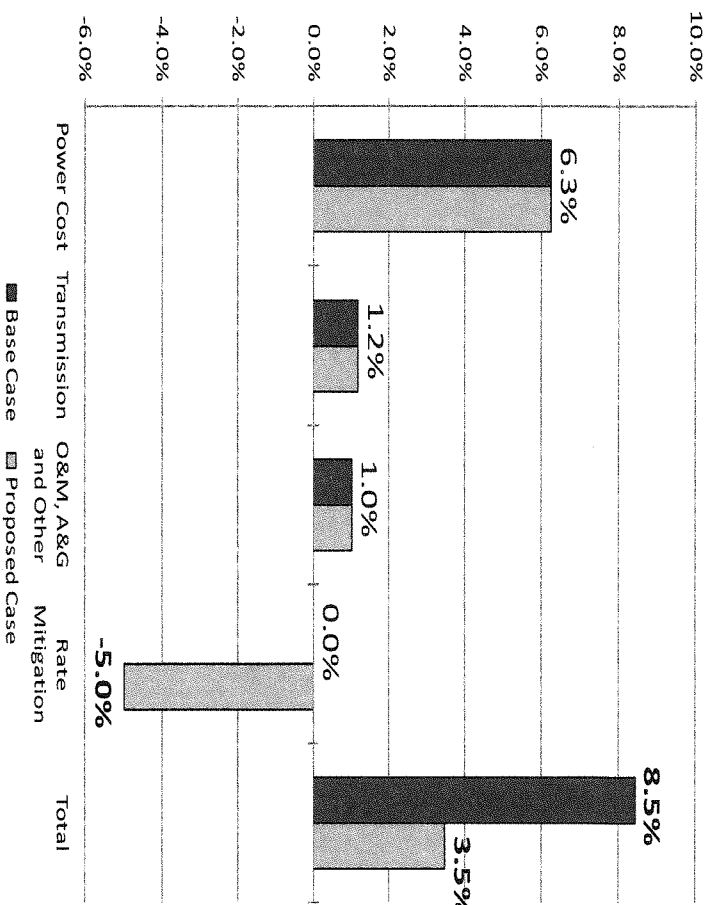


Striving to be the world's best energy company.



# Rate Strategy – Rate Drivers

## Components of Increased Revenue Requirement



## Rate Drivers Detail (Amounts in millions)

Power Cost	Amount	Rate Increase
EPA Cross State Air Pollution Rule	\$ 4.2	1.8%
Dual outage base load units	\$ 4.0	1.7%
GGG Fuel	\$ 3.0	1.3%
New wind interconnection costs	\$ 2.1	0.9%
Walter Scott #4 demand cost	\$ 1.2	0.5%
Other	\$ 0.3	0.1%
<b>Total Power Cost</b>	<b>\$ 14.8</b>	<b>6.3%</b>
<b>Transmission</b>		
SPP Transmission Expansion Plan	\$ 1.8	0.8%
NPPD Transmission for WAPA	\$ 0.7	0.3%
Transmission Line Losses	\$ 0.3	0.1%
<b>Total Transmission</b>	<b>\$ 2.8</b>	<b>1.2%</b>
<b>O&amp;M, A&amp;G and Other</b>		
<b>Payroll &amp; Benefits</b>		
Increased Operating Expense labor vs. capital	\$ 1.0	0.4%
Other Payroll & Benefits Adjustments	\$ 1.7	0.7%
<b>Total Payroll &amp; Benefits</b>	<b>\$ 2.7</b>	<b>1.1%</b>
<b>Purchases &amp; Services</b>		
Software, Hardware & IT Maintenance	\$ 0.9	0.4%
Sustainable Energy Program	\$ 1.0	0.4%
<b>Total Purchases &amp; Services</b>	<b>\$ 1.9</b>	<b>0.8%</b>
<b>Other</b>		
Debt Service Adjustments (2012 Financing, CP Int)	\$ 2.9	1.2%
Other revenue adjustments <sup>1</sup>	\$ (5.1)	-2.2%
	\$ (2.2)	-0.9%
<b>Total O&amp;M, A&amp;G and Other</b>	<b>\$ 2.4</b>	<b>1.0%</b>
<b>Increased Revenue Requirement Prior to Mitigation</b>	<b>\$ 20.0</b>	<b>8.5%</b>
<b>Rate Mitigation Strategies</b>		
Utilization of Rate Stabilization Funds - Dual Outages	\$ (4.0)	-1.8%
Amortization of Wind Interconnection Costs	\$ (2.0)	-0.8%
Reduction of CSAPR Estimates	\$ (1.0)	-0.4%
Assume Debt Refunding	\$ (0.9)	-0.4%
Reduced Debt Service Coverage from 2.0 to 1.95x	\$ (2.8)	-1.2%
Reduced Health Insurance Expense	\$ (1.1)	-0.4%
<b>Total O&amp;M, A&amp;G and Other</b>	<b>\$ (11.8)</b>	<b>-5.0%</b>
<b>Total Increased Revenue Requirement</b>	<b>\$ 8.2</b>	<b>3.5%</b>

<sup>1</sup>. Increased load, decreased wholesale revenue and interest income, City Dividend for Utility Ownership



Striving to be the world's best energy company.

## Rate Strategy – Rate Mitigation Strategies

The 2012 Budget Base Case identified the need for a 8.5% system average rate increase. LES staff in collaboration with the Budget and Rates Committee of the LES Administrative Board developed the following strategies to mitigate the rate increase. The below strategies have been included in the Proposed 2012 Budget.

### Utilization of Rate Stabilization Funds - \$4.0 million

Rate Stabilization Funds are intended for use in mitigating rate increases due to one time expenses. In keeping with this definition, the Proposed Budget includes the assumption that \$4.0 million will be withdrawn from the Rate Stabilization Fund to off-set costs associated with the simultaneous planned maintenance outages at two base load power plants.

### Reduction of Cross State Air Pollution Rule (CSAPR) Expenses - \$1.0 million

The original budget assumed that Power Costs would increase approximately \$4.2 million due to CSPAR. Based on the uncertainty related to the timing and impact from implementation of CSAPR, the LES Budget and Rates Committee recommended that the assumed cost impact be reduced by \$1.0 million to \$3.2 million. It is possible that additional funds could be withdrawn from the Rate Stabilization Fund if CSAPR costs prove to be higher than assumed in the Proposed Budget.

### Amortization of Wind Interconnection Cost - \$2.0 million

In 2012 LES will be required to pay \$2.1 million for wind interconnection costs associated with Broken Bow and Crofton Bluffs wind farm participation. These are one-time expenses required to establish appropriate transmission interconnection (substation, transmission lines, etc.) to receive the associated wind energy. Typically in the utility industry these type of costs would be amortized over the life of the asset or the associated participation contract. However, LES Policy states that participation contract costs eligible for amortization must be greater than \$2.0 million on an individual project basis and the amortization schedule no longer than three years. The \$2.1 million included in the budget is for two projects which do not individually meet the \$2.0 million threshold. The LES Finance and Audit Committee has given approval to deviate from LES Policy in order to amortize these costs over the 20 year life of the wind contracts. This approach would require formal approval both from the LES Administrative Board and the Lincoln City Council.

### Bond Refunding - \$0.9 million

LES has the opportunity to refund a portion of its existing debt portfolio in 2012. The Proposed Budget includes the assumption that a portion of existing debt is refinanced at a lower interest rate in 2012 resulting in savings of approximately \$0.9 million.

### Debt Service Coverage

In addition to the above rate mitigation strategies the Budget & Rates Committee recommended reducing targeted debt service coverage from 2.0 to 1.95X for 2012. LES' Financial Plan defines targeted debt service coverage as 1.90 to 2.0X.

### Health Insurance-\$1.1 million

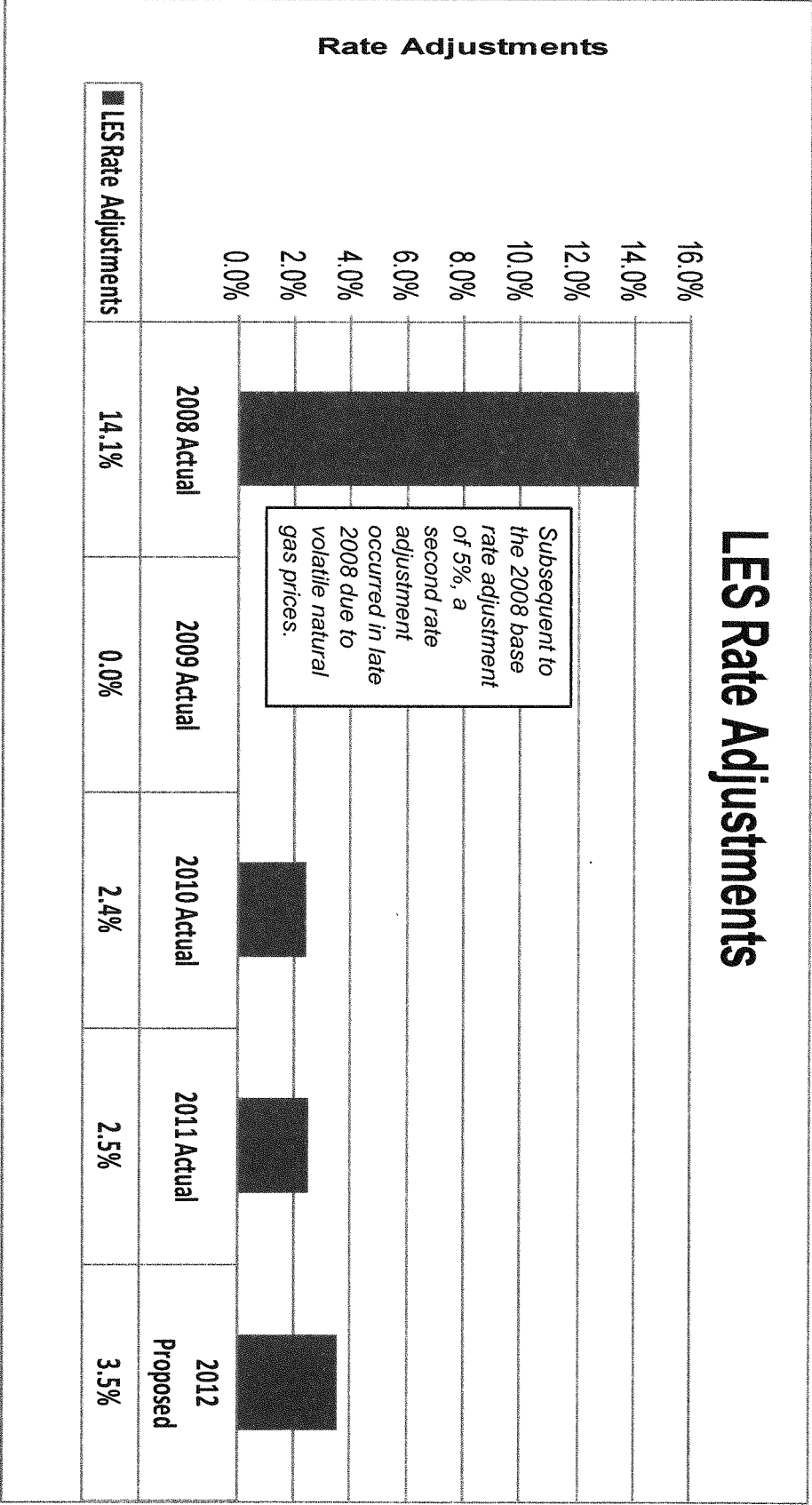
The analysis that was completed in late October in preparation for open enrollment reflected that 2012 operating expenses as related to health and dental are expected to be \$1.1 million lower than the amount included in the originally proposed 2012 budget. These savings allowed a reduction in the 2012 operating budget.



Striving to be the world's best energy company.

# Proposed 2012 LES Rate Adjustment

The chart below displays the recent history of LES rate adjustments including the 2012 proposed rate adjustment. This chart does not include the impact from the City Dividend for Utility Ownership.



Striving to be the world's best energy company.

# 2012 Budget Appropriation Request

## Budget Request

Operating Budget (including PILOT<sup>1</sup>) 246,482.2  
 Less Depreciation & Amortization (40,962.7)

**\$205,519.5**

### Debt Service:

2002 Bonds 15,493.7  
 2003 Bonds 8,599.5  
 2005 Bonds 5,615.7  
 2007A Bonds 4,549.2  
 2007B Bonds 11,686.9  
 2012 Bonds 1,952.0  
 Commercial Paper 359.8  
 AFUDC<sup>2</sup> (696.0)

**47,560.8**

### Capital Budget

**73,580.0**

## Total Budget Request

**\$326,660.3**

## Source of Funds

### Cash Receipts:

Operating Revenue \$282,766.9  
 Interest & Other Income 447.8

**\$283,214.7**

### Provided from current or borrowed funds

**43,445.6**

## Total Source of Funds

**\$326,660.3**

<sup>1</sup>Payment in Lieu of Tax (PILOT)

<sup>2</sup>Allowance for Funds Used During Construction



Striving to be the world's best energy company.

# Proposed rate adjustment for January 1, 2012

- Regional Utility Rate Comparison
- 2012 Rate Class Impacts
- Proposed Retail Rate Schedules



1040 O Street, P.O. Box 80869  
Lincoln, NE 68501-0869

p: 402.475.4211  
[www.les.com](http://www.les.com)

Lincoln Electric System

# Lincoln Electric System

## Regional Utility Rate Comparison

<b>Column 1 - Bills for all utilities for rates in effect in 2011</b>
<b>Column 2:</b>
LES: Bills for rates in effect in 2011, plus, the new City Dividend
Other utilities: Bills for rates in effect in 2011, plus, any franchise fees comparable to the City Dividend
<b>Column 3:</b>
LES: Bills including the proposed 2012 3.5% rate adjustment, plus, the new City Dividend
Other utilities: Bills for rates in effect in 2011, plus, any franchise fees comparable to the City Dividend

<b>Column 1 (see explanation above)</b>	<b>Column 2 (see explanation above)</b>	<b>Column 3 (see explanation above)</b>
---	---	---

Residential (Annual Average)					
Electric Bills using 2011 Rates		Electric Bills using 2011 Rates plus LES' City Dividend and other utilities comparable Franchise Fees		Electric Bills using: (1) for LES: proposed 2012 Rates plus LES' City Dividend, and (2) for Other Utilities: 2011 Rates and comparable Franchise Fees	
City	Residential 1,000 kWh	City	Residential 1,000 kWh	City	Residential 1,000 kWh
Lincoln	\$89.24	Lincoln	\$91.24	Lincoln	\$94.01
Des Moines	\$90.92	Des Moines	\$95.46	Des Moines	\$95.46
Kansas City, KS	\$92.08	Colorado Springs	\$99.13	Colorado Springs	\$99.13
Denver	\$96.59	Omaha	\$99.87	Omaha	\$99.87
Kearney, NE	\$96.78	Denver	\$101.42	Denver	\$101.42
Wichita	\$96.98	Wichita	\$101.83	Wichita	\$101.83
Colorado Springs	\$99.13	Kansas City, MO	\$102.59	Kansas City, MO	\$102.59
Omaha	\$99.87	Kansas City, KS	\$103.04	Kansas City, KS	\$103.04
Kansas City, MO	\$102.59	Minneapolis	\$113.09	Minneapolis	\$113.09
Minneapolis	\$107.70	Kearney, NE	\$116.61	Kearney, NE	\$116.61

Small Commercial (Annual Average)					
Electric Bills using 2011 Rates		Electric Bills using 2011 Rates plus LES' City Dividend and other utilities comparable Franchise Fees		Electric Bills using: (1) for LES: proposed 2012 Rates plus LES' City Dividend, and (2) for Other Utilities: 2011 Rates and comparable Franchise Fees	
City	40 kW 14,000 kWh	City	40 kW 14,000 kWh	City	40 kW 14,000 kWh
Colorado Springs	\$729	Colorado Springs	\$729	Colorado Springs	\$729
Lincoln	\$731	Lincoln	\$741	Lincoln	\$766
Omaha	\$775	Omaha	\$775	Omaha	\$775
Minneapolis	\$794	Minneapolis	\$834	Minneapolis	\$834
Des Moines	\$809	Des Moines	\$850	Des Moines	\$850
Wichita	\$818	Wichita	\$859	Wichita	\$859
Kansas City, MO	\$863	Kansas City, MO	\$863	Kansas City, MO	\$863
Kearney, NE	\$936	Kansas City, KS	\$1,082	Kansas City, KS	\$1,082
Kansas City, KS	\$967	Kearney, NE	\$1,128	Kearney, NE	\$1,128
Denver	\$1,087	Denver	\$1,141	Denver	\$1,141

# Lincoln Electric System

## 2012 PROJECTED REVENUE

With 3.5% Retail Rate Adjustment Effective 1/1/2012

	<u>Revenue Without Rate Change</u>	<u>Revenue With Rate Change</u>	<u>Revenue Change (%)</u>
<b>RETAIL</b>			
<b>Residential</b>	\$103,267,626	\$106,792,000	3.4%
<b>General Service</b>			
Small General Service	\$33,553,987	\$34,782,258	3.7%
Heating Service	\$4,525,192	\$4,691,757	3.7%
<u>General Service-Demand</u>	<u>\$28,850,991</u>	<u>\$29,769,407</u>	<u>3.2%</u>
Total General Service	\$66,930,170	\$69,243,422	3.5%
<b>LLP and LPC</b>			
Large Light and Power	\$51,188,385	\$53,001,596	3.5%
<u>Large Power Contract</u>	<u>\$14,946,775</u>	<u>\$15,544,680</u>	<u>4.0%</u>
Total LLP & LPC	\$66,135,160	\$68,546,276	3.6%
<b>Lighting</b>			
Security Lighting	\$234,752	\$234,902	0.1%
Traffic Lighting	\$76,357	\$76,357	0.0%
<u>Street &amp; Highway Lighting</u>	<u>\$1,840,891</u>	<u>\$1,840,891</u>	<u>0.0%</u>
Total Lighting	\$2,152,000	\$2,152,150	0.0%
<b>TOTAL RETAIL SYSTEM</b>	<b>\$238,484,956</b>	<b>\$246,733,847</b>	<b>3.5%</b>
 <b>OTHER REVENUE</b>			
City Dividend (9/1/12 rate adj)	\$6,448,211	\$6,448,211	0.0%
WAPA Wholesales, SFP, Rents, Wheeling	\$29,028,196	\$29,173,584	0.5%
<b>TOTAL OTHER REVENUE</b>	<b>\$35,476,407</b>	<b>\$35,621,796</b>	<b>0.4%</b>
 <b>TOTAL SYSTEM</b>	<b>\$273,961,363</b>	<b>\$282,355,643</b>	<b>3.1%</b>